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ABSTRACT

Measures to directly create jobs have begun to occupy an important position in American economic policies. Most of these measures involve direct public service programs and employment subsidies. This paper explores the reasons for the emergence of such programs and notes that the economic rationale for these measures suggests a substantial potential for direct job creation measures--a potential involving increased employment, a lower inflation rate, and a more equitable income distribution. This potential is not easily attained, and the issues of displacement and administrative difficulties must be confronted. However, job creation measures have macro-economic effects (e.g., increasing the employment of low productivity workers) not easily realizable under alternative programs. Experimentation with various forms of direct job creation measures could serve as the basis for policies which meet both efficiency and equity goals. (Author/WP)

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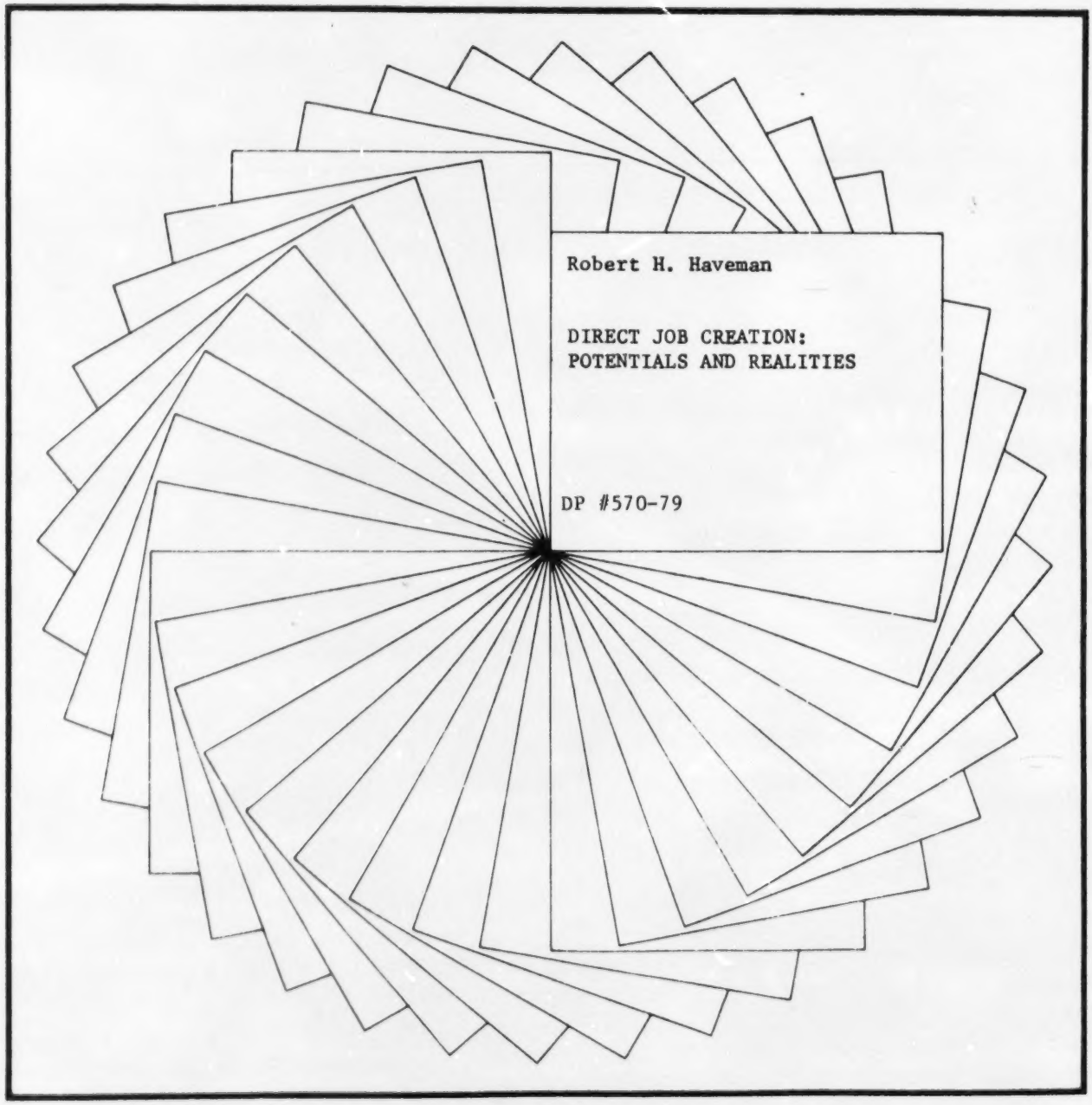

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ABSTRACT

Measures to directly create jobs have begun to occupy an increasingly important position in U.S. labor and manpower policies. The bulk of these measures involve direct public service programs and employment subsidies. The paper first reviews the primary measures in this area in the 1970s, and speculates on the reasons why such policies have come to replace education-training and income transfer policies. The economic rationale for these measures suggests a substantial potential for direct job creation measures--a potential involving increased employment, a lower inflation rate, and a more equitable income distribution. This potential is not easily attained, however, as direct job creation measures must confront the issues of displacement and administrative difficulties. In spite of these realities, evaluations of job creation measures give a basis for cautious optimism. These evaluations are summarized, and a few suggestions for alternative approaches to direct job creation are suggested.

Direct Job Creation: Potentials and Realities

Robert H. Haveman

In the area of labor market policy, the 1970s have seen a major redirection of policy away from programs designed to change the productivity of individual workers and toward direct job creation policies. By fiscal year 1980, nearly $4 billion was obligated for direct job creation efforts, three-fourths of it for public sector job creation. This outlay reflects a major change of emphasis from the earlier training-education-placement efforts in the manpower field, and the expansion of income support policy in the transfer program area. The effort to directly provide jobs to the unemployed would appear to reflect dissatisfaction--perhaps, frustration--with policies to increase income and employment via increasing earnings capacity, and to maintain the income of those for whom work is unavailable. This increase in the direct provision of jobs can be viewed as the first major step to take seriously the Full Employment Act of 1946, and to move the U.S. toward a full employment-guaranteed job economy. Support for direct job creation measures is not unrelated to that driving the Humphrey-Hawkins bill, and the Full Employment and Balanced Growth Act of 1978 which resulted from it.

Direct public provision of jobs is a relatively unorthodox venture for the market-oriented U.S. economy. It represents an admission that

the current structure of the market economy, despite aggregate monetary and fiscal measures, is unable to secure adequate economic performance. Support for direct public job provision comes in part from a belief that this instrument can reduce some of the current constraints on labor market performance. It is by improving this performance that direct job creation holds promise as an effective instrument for reducing income poverty, and for solving what has come to be known as the structural unemployment problem.[1]

In Section I, the concept of direct job creation is defined and the primary job creation activities of the federal government during the 1970s are identified. Section II discusses the rationale for direct job creation measures; a rationale which has both a political and economic dimension. This rationale suggests substantial potential for direct job creation measures--a potential involving increased employment, a lower inflation rate, and a more equitiable income distribution. This potential, however, may be deceiving, because major policy interventions often carry with them unintended and unforeseen side effects. Section III discusses these side effects and marshalls existing evidence on the effectiveness of direct job creation measures. Finally, Section IV suggests a few speculative alternative approaches for direct job creation efforts in the U.S.

I. What is Direct Job Creation?

It is perhaps easier to indicate what direct job creation policy is not, than what it is. First, it does not refer to normal public employment--that employment which provides direct public sector services--

even though standard public employment can include a direct job creation aspect. Here, direct job creation is defined by measures that are undertaken to accomplish two major objectives. They are, first, an increase in labor demand for specific groups in the economy, such as youths, minorities, the handicapped, or those with little education or skills. Because normal labor demand for these groups is often inadequate when other groups are fully employed, they are referred to as the structurally unemployed. Because these groups tend to be found at the bottom of the earnings distribution, the reduction of income poverty is a second objective of direct job creation efforts. In short, then, any policy measure designed to increase the demand for the labor of specific groups experiencing high unemployment (or non-employment) or income poverty will be considered direct job creation.[2] This includes direct public service employment programs and employment subsidy programs designed to create jobs in the private sector.

Most prominent among the recent policies fitting this definition is the Comprehensive Employment and Training Act--CETA. As originally developed in 1973, CETA was designed to enable local officials to co-ordinate manpower programs so as to meet their particular concerns and to provide jobs for unemployed and disadvantaged workers. Although the original act included a provision for public service employment for those with low skills, the major thrust of CETA came with a 1974 revision which established an untargeted, countercyclical public employment program. With federal support provided to areas experiencing high and sustained unemployment, transitional employment opportunities were provided by state and local government agencies at close to prevailing wage

rates. Of the nearly 300,000 slots created in the first year of the program, less than one-half were filled by persons from low-income families, and nearly three-fourths were filled by high school graduates.

After 1976, the emphasis in CETA shifted toward disadvantaged and hard-to-employ workers. The 1976 Amendments reserved 250,000 job slots for disadvantaged workers, and with Carter Administration sponsorship a target of 750,000 public service jobs was established with eligibility criteria targeted toward disadvantaged workers, welfare recipients, and the long-term unemployed. By 1979, 43 percent of the nearly 700,000 CETA jobs were being performed by the structurally unemployed, and by 1980 this is expected to increase to 57 percent.

Although CETA is the most prominent direct job creation program, it is not the first. One predecessor was Operation Mainstream which, by the mid-1970s, was directly employing about 40,000 older, disadvantaged, and chronically unemployed workers in community service activities at wage rates slightly above the minimum wage. As in CETA, little training was provided. Moreover, relatively few workers were placed in regular public or private jobs.

An even larger predecessor was the Neighborhood Youth Corps which was perhaps more a work experience than a public employment program. As part of the War on Poverty in the 1960s, Neighborhood Youth Corps has provided short-term summer and during-school employment at low wage rates to over six million poor youths during a 10-year period. Another predecessor (which has received publicity out of all proportion to its magnitude) was the Work Incentive (WIN) program. This publicity came from the 1971 legislative requirement that welfare recipients register for

work. While over 2 million recipients were so registered by the mid-1970s, only a few thousand were given public jobs, and most of those were in work experience or on-the-job training programs rather than regular public employment. Another direct job creation program, but with a countercyclical emphasis, was the Public Employment Program (PEP) of the early 1970s. During its two-year life, PEP employed 340,000 workers in transitional public jobs and an additional 300,000 workers were hired in summer jobs. Targeting to specific groups in PEP was not extensive, and while nearly one-half of the workers had been unemployed for a long time, over three-fourths were high school graduates, and relatively few were from low-income families.

All of these direct job creation programs involved the special provision of work by the public sector. Technically, workers in these programs were public employees. In the 1970s, however, direct job creation efforts were also aimed toward the provision of jobs in the private sector, in part, because the magnitude of the problem exceeded the potential of the public sector to provide jobs. The major private sector program designed to increase the demand for labor, particularly for low wage labor, was the New Jobs Tax Credit (NJTC) enacted in 1977. The NJTC provided a tax credit equal to 50 percent of the first $6000 of wages paid to the 50 workers hired in a firm above 102 percent of the firm's previous year employment level. While this two-year program (1977-78) did not distinguish among workers by their unemployment or poverty status, the subsidy--and hence the incentive to hire low wage workers--was a higher percentage of their wages than it was for more skilled workers.

In 1979, the NJTC was replaced by a directly targeted employment subsidy program, the Targeted Jobs Tax Credit (TJTC). For the first year of employment, this tax credit equals 50 percent of the first $6000 of wage cost for any newly hired person from a designated set of categories--youths from low-income families, disabled workers, Vietnam era veterans, and SSI and general relief recipients. The subsidy falls to 25 percent for the second year of employment. By eliminating the 102 percent employment threshold and explicitly designating target groups, the substitution of TJTC for NJTC represents a shift in emphasis from cyclical unemployment toward structural, low-wage unemployment.

One final direct job creation measure--proposed but not yet enacted--should be mentioned. In 1977, President Carter proposed direct job creation as an integral part of his welfare reform plan--the Program for Better Jobs and Income (PBJI). Work, he stated, would be substituted for welfare as a primary source of income for many current welfare recipients. In his plan, 1.4 million new minimum wage jobs would have been created by the government and would have been filled by able-bodied welfare recipients not encumbered with substantial child care responsibilities. In order to continue receiving income support payments, these recipients would have been required to find employment in regular public or private sector jobs or to participate in the PBJI jobs program. While Congressional concern with the budgetary cost of PBJI led to its demise, a new, scaled-down version has been proposed. Direct job creation is a central element in it, as well. In this new 1979 proposal, 400,000 new positions for welfare recipients would be created within CETA.

In both labor market and income support policy, then, the direct creation of jobs through public employment and employment subsidy programs has begun to play a pivotal role. While training remains a component of some of these programs, work qua work is now seen as their primary purpose. For recipients, the work provided has value in itself as an alternative to unemployment, as human capital in providing experience in the world of work and some on-the-job training, and as earned income rather than income support from transfer programs. For taxpayers, direct job creation is viewed as more desirable than cash grants with no quid pro quo in providing income support to the disadvantaged and, in addition, outputs meeting some private or social need are produced.

These recipient and taxpayer gains are judged to be at least equal to the costs of creating work where no real--or at least well-articulated--demand for output exists. The costs of creating jobs are not trivial, and estimates range from an annual budget cost of about $3500 per job in the Neighborhood Youth Corps program to over $10,000 per job in the WIN and CETA programs. These per job costs, however, are substantially below the government outlays required to create employment by means of tax cuts or general spending increases.

II. Why Direct Job Creation?

High unemployment rates among certain groups, large and growing welfare rolls, and substantial and concentrated income poverty are not new phenomena. Why, then, did the government wait until the 1970s to turn to direct job creation to combat these problems? The answer, it seems, is not one which fosters confidence in either policy makers or economists.

Though rarely admitted, the political rationale for direct job creation rests on a pair of less than inspiring propositions. The first is frustration over the apparent failures of early labor market programs. The decisions made in the 1960s to provide education, training, and skills to poor and unskilled workers were optimistic ones, based on the human resource investment notions of economists and other social scientists. The poor, it was believed, could earn their way out of poverty if given additional education and skills. The problem was thought to arise on the supply side of the labor market--and tens of billions of dollars were spent during the decade after the War on Poverty was announced to correct supply-side deficiencies. To supplement this strategy, income transfers were expanded through increased coverage, additional programs, reduced eligibility requirements, and more generous benefits. From 1965 to 1974, income transfers targeted on poor and disadvantaged workers grew from about $30 billion to $170 billion. (Plotnick and Skidmore, 1975).

This period also saw the rising importance of evaluation research. Hundreds of evaluation studies were made of the numerous education, training, and income support programs--and the results were not positive. Participants in the training programs generally recorded earnings increases, but they were often not large enough to cover the costs of providing training. Gains in educational attainments were also recorded, but these were largely short-lived and not substantial (Levin, 1977). Welfare and transfer benefits expanded and incomes were supported, but serious work disincentives were created, horizontal inequities remained severe, and administrative complexities and claims of fraud supported the belief that there was a "welfare mess." Perhaps most serious, the national

poverty count did not fall markedly, especially after 1969, and the unemployment rate of minorities, youths, women, and other groups remained orders of magnitude larger than the average rate. After all of these efforts, the supply-side training, education, and income support strategy apparently had not really worked. The failure of the supply side approach increased the relative attraction of a demand side strategy—hence, direct job creation, in part by default.

The other political rationale for direct job creation arises from dissatisfaction with the growth in the income support system. The substantial increase in education, training, and other social welfare expenditures brought with it the strong opposition of those nonpoor who were paying the bill. Failures were emphasized, work disincentives cited, and the absence of tangible reductions in poverty and unemployment were noted. Income transfer and social policy came to be viewed as encumbering the economy, restraining initiative, investment, and growth (Feldstein, 1974a, 1974b). This opposition also argued against what to them was the senseless strategy of "give-aways." Little could be expected from a system of money or food or housing or medical care gifts in which no quid pro quo in the form of effort was required or expected, and in which the gift was withdrawn as effort increased. The remedy was clear--provision of income support should be granted only in payment for work provided. Again, direct job creation--the new "putting out" system--met this concern. Unfortunately, what was required to satisfy the political need for a quid pro quo was the presence of an individual in a job slot, an input, and not the value of the output which his/her services yielded.

This characterization of the political rationale for direct job creation may be too cynical, but perhaps not by a great deal. Arguments

concerning the self-esteem associated with work as opposed to welfare were raised, as was the value of work experience and the outputs produced. Moreover, the provision of jobs would reduce a primary constraint on the success of training programs--the lack of jobs--and offset the work disincentives of standard transfer programs. It is, however, difficult not to believe that these arguments were little more than dressing for the real need for a policy alternative to the discredited supply-side strategy—an alternative which entailed some quid pro quo for income support. Direct job creation was such an alternative.

While the political rationale for direct job creation is a questionable one, the economic rationale failed to be clearly articulated in time to have substantial impact on legislation. With but few exceptions, economists had neither fully thought through nor convincingly argued this rationale until well after major public service employment and wage subsidy programs were in place. And, as we will see, that rationale is not an unimpressive one. Henry Aaron's (1978) characterization of policy-making guiding social science--rather than the reverse--is nowhere better illustrated.

What then is the economic rationale for direct job creation? This rationale starts from a perception of the adverse economic effects of existing legal and institutional constraints on the operation of the labor market. Because of these constraints--minimum wage laws, employer discriminatory behavior, union power and influence, supply disincentives caused by income transfer and income and payroll tax programs, and the demand disincentives caused by unemployment insurance and payroll taxes—labor markets do not respond quickly to changes in labor supply

or demand, and a wedge is created between the gross wage paid by employers and the net wage received by workers. Employer-borne gross wage costs are increased relative to the perceived marginal product of low-skill workers, and the net wage received by workers is reduced relative to the supply price of labor for these workers; the market clearing effect of flexible wages is not permitted to operate. In this context, high unemployment among groups of low-skill workers—youths, minorities, women--is inevitable, as is the persistence of income poverty among these same groups.

Direct job creation measures—either public service jobs or employment subsidies--directly reduce the cost of hiring additional labor as perceived by potential public or private employers. Indeed, in the case of public service employment, a 100 percent subsidy of the wages of target group workers is provided, driving the cost of hiring additional such workers to zero. This reduced cost will cause employers to substitute workers in the target group for both capital inputs and workers who are not members of the target groups. Thus, employers have an incentive to accelerate plant and equipment maintenance or inventory accumulation (especially if the program is not a permanent one), or, if confronting increased demand for output, to add a second shift of new workers rather than to increase overtime work. All of these reactions stimulate the demand for workers in the target group.

From an economy-wide perspective, a related effect will occur. If the direct job creation program is targeted on workers who will increase their labor force participation in response to an increased labor demand, then potential output (GNP) will increase. Transfer program recipients,

handicapped workers, and low-income youth would seem to be such groups, as large numbers of these workers are not employed--indeed, are out of the labor force--because of unemployment, minimum wages, and other labor market constraints.[3] In an inflationary situation, substantial increases in both the employment of these workers and GNP could occur without substantial upward wage pressure. Some economists have referred to this as "cheating the Phillips curve" by concentrating employment increases on sectors of the labor market experiencing excess supply.[4]

The benefits of expanding GNP in this non-inflationary way are even larger if these target groups are unemployed or out of the labor force involuntarily. In such a situation the leisure foregone by the newly employed would be of small, zero, or even negative value. In economic welfare terms, the gain from employing such otherwise unemployed workers is the entire output which they produce, and not the output less the value of the inputs, as in the standard case.

Other gains also occur. Taxpayers will gain from the increased taxes paid by the newly hired workers, and the reduced welfare and other transfer payments. Thus, both the workers involved, and society as a whole, gain as recipients work their way off welfare.

Two final effects should be noted: First, direct job creation programs in the private sector may exercise downward pressure on prices by reducing total labor costs. This price-reducing effect complements that of the "cheating the Phillips curve" effect mentioned above. Second, selective direct job creation measures will tend to shift the composition of employment and earnings toward low-skill, target-group workers. If less inequality in the distribution of income is desired, this is a major benefit.

This economic case for direct job creation can be thought of in yet another way. If the key causes of excessively high unemployment and poverty among some groups are the constraints on the operation of the labor market due to discriminatory employer behavior, the power of trade unions, and minimum wage and welfare policies, two approaches seem feasible. The first would be the elimination of the constraints--revamping or abandoning minimum wage and income-conditioned transfer programs and eliminating restrictive employer and union practices. The second would be to ameliorate or offset the adverse side effects of these policies and practices. These side effects were described earlier as wedges between employer-borne gross wages and the perceived marginal product of low-wage workers and between the net wage received by labor and the supply price of his/her working. It is precisely the reduction of these wedges which is accomplished by direct job creation programs. To employers, the program reduces the wage costs of hiring low wage workers, while to low wage workers, the program increases the possibility of finding and the rewards to holding a job. In short, well-designed direct job creation programs can serve to offset the adverse side effects of labor market constraints, and in so doing lead to increased employment and earnings of low-wage workers, and to increased output and aggregate employment with little or no inflationary pressure.

Clearly, then, the economic rationale for direct job creation is a strong one, and surely more substantive than that which has motivated political support for such measures. Unfortunately, the pattern which Henry Aaron documented for other areas applies to this policy approach

as well. Both theoretical and empirical work has followed rather than guided direct job creation policy.

III. The Realities of Direct Job Creation

While the politics of direct job creation suggest a major and growing preference for public service employment and wage subsidies, and while the economic rationale for such a demand-side strategy hypothesizes gains in both efficiency and equity, their effective design and implementation is not straightforward. Any ultimate appraisal of the role for a direct job creation strategy must also confront several potential problems.[5]

The first problem associated with direct job creation programs involves "displacement effects"--the reduction of employment somewhere as an offset of the job creation impacts of the program. Because the primary objective for this strategy is employment creation, its evaluation must be in terms of its net job creation impact, defined as the difference between the employment level in the economy with the policy and that without it. Clearly, because (1) the output produced by the subsidized workers competes with alternative outputs, (2) the financing of the program entails opportunity costs which represent displaced outputs, and (3) many of the subsidized workers would have been working even in the absence of the subsidy, the net job creation impact will be smaller than the gross number of workers hired or subsidized. The ratio of net to gross job creation is an indicator of these displacement effects.

Although several studies have estimated this ratio or its equivalent for public employment programs, estimates vary widely. For example, one evaluation of CETA, in which few constraints were imposed on the governmental units which administered the program, suggested that this

net-to-gross jobs ratio approached zero in the long run. The implication is that fiscal authorities were able to divert nearly all of the CETA funds to expenditures which would have been financed alternatively in the absence of CETA. In general, the short-run net employment effects were found to be larger than the long-run effects (Johnson and Tomora, 1977). Other studies evaluating public employment programs--and critiquing the above study--were more optimistic. They placed the ratio of net-to-gross employment at between 40 to 60 percent after one year--implying that about one-half of the funds were diverted from job creation through "fiscal substitution" (Borus and Hamemesh, 1978).

It seems likely that public employment programs which constrain governmental units from diverting CETA funds to activities which would have been undertaken in their absence would yield net-to-gross employment ratios higher than those estimated for CETA. Moreover, for public service employment programs which are targeted on low-skill, high-unemployment groups, fiscal substitution is likely to be relatively difficult because the skill mix of target group workers hired would not conform closely to that of regular public employees.

The only evaluations of direct job creation programs aimed at the private sector are those of the New Jobs Tax Credit. These studies measured the employment increases net of displacement within industries, but failed to consider the possible displacements in other sectors of the economy. In one study, the employment increases in the construction and retailing industries attributable to the NJTC were estimated by means of a variety of time series regressions (Bishop and Haveman, 1979). The estimated NJTC employment stimulus over the 12-month period from mid-1977 to mid-1978

ranged from 150,000 to 670,000. For these industries, total employment growth over the period was 1.3 million. The preferred models attribute at least 20 to 30 percent of the observed employment increase in these industries to NJTC. This result is consistent with the observation that, during the period of estimation in both industries, rates of employment growth substantially exceeded the rates of output growth.

Other studies, based on different data and techniques, also suggest a substantial effect of the NJTC. While these studies focus on the net intra-sector employment effects, and hence fail to consider some possible channels of displacement, the employment effects attributed to the job creation measure appear to be substantial (Derloff and Wachter, 1979).

A second problem involves the resource and budget costs of the net jobs created by this approach. As indicated in Section I, the budget costs per net job created are quite high. The most recent "guesstimate" of budget costs is based on the assumption that displacement is 20 percent in public employment programs and 80 percent in private sector job creation programs. It suggests a cost per job for private sector programs of about $6500 and a cost for public sector programs of over $9000 per job.[6] Although these estimates do not consider the increased tax revenues generated by the extra employment, or the reduced transfer payments, they do suggest that the taxpayer cost per job created is close to if not in excess of the net earnings of the new employees.

This discussion of budget costs per job raises a third problem--the valuation of the output produced relative to the real costs of creating the jobs. The benefits attributable to such jobs involve not only the productivity of the worker while employed on the job, but also the contribution of the work experience or on-the-job training to his/her

earnings in the future. The real costs of employing a worker in such a special public or private program include both the value of the equipment and materials with which he/she works and the value of what he/she would have been doing if the program had not existed. This foregone productivity might involve the worker's alternative market activities, or the home production (e.g., child care) in which he/she would have been engaging, or simply the value of the foregone leisure.

As with other effects, public direct job creation programs are likely to differ from wage subsidies to private firms in their efficiency impacts. Economic theory suggests that the private sector approach will be the more effective in meeting an efficiency, or benefit-cost, criterion. First, private employers already have a known production process and a set marketing channel for the products produced, whereas public employment programs are often undertaken with no clear definition of the expected output and no easy measure of productivity. Partially offsetting this is the fact that, through competition, privately marketed outputs are more likely to displace other production than public outputs designed to fill an unoccupied economic niche. Moreover, if private employers use the subsidy to retain workers whom they would otherwise lay off, the opportunity cost of the workers retained will be low. At least in principle, direct public employment programs would appear better equipped to hire very low skill-low wage workers with correspondingly low opportunity costs. In practice, however, the managers of public service employment programs have found the hiring of such workers weakened their efforts to develop productive and smoothly functioning work arrangements, and have not, in fact, targeted job slots on these workers (Nathan et al., 1978).

Finally, to achieve economic efficiency, actual wage rates should equal the marginal opportunity cost of labor. Direct public employment programs, in effect, subsidize labor costs by at least 100 percent of true marginal productivity. Wage subsidies toward the private sector are likely to come closer to subsidizing the difference between observed wage rates and real opportunity costs.

In any case, it should be emphasized that this economic efficiency criterion is a difficult one to meet for either private or public sector direct job creation efforts targeted on low-productivity workers. While diverting such workers into a direct job creation program is likely to entail relatively small losses from alternative activities (especially if the alternative to participation is involuntary unemployment), these workers do require associated inputs in the form of materials, equipment, and supervisory personnel, all of which comes at full cost. The key issue, then, is the value of the output produced. Because the output of public job creation programs is not marketed, its value is hard to measure. This is especially true if the basic motivation for the program is to "keep occupied" members of the target groups or to provide them work experience or training, rather than to use the public sector to achieve some defined objective or to produce some identifiable good or service.

The difficulties of meeting the efficiency objective have been illustrated in a recent study of a large, well-organized program of special workshops for handicapped and other less productive workers in the Netherlands. Little fault could be found with the internal organization of the factories in this job creation program, and its clients

are clearly less productive workers. Production from the workshops competed in the private market at market prices, and workshop managers were able to pursue any contracts for which they could assure delivery. The subsidy provisions, however, did little to encourage effective cost control in the program. An analysis of the benefits and costs of this program turned up a balance sheet which was not particularly favorable. The net economic costs of employment in the program are on the order of $4000-$5000 per year per worker (in 1979 dollars)--similar to taxpayer costs of U.S. direct job creation programs. Only if the socio-psychological benefits to the workers are judged to exceed this value can the program be considered a socially efficient one (Haveman, 1978).

Additional evidence on the economic efficiency effects of direct job creation is found in preliminary reports of the Supported Work Experiment (Kemper, Long, and Thornton, 1978). This evidence, like that of the Dutch program, is not encouraging. During the 18 months after participants were enrolled in the program net economic costs ranged from $1100 per participant for ex-addicts to $2600 for youths. Only program sites employing AFDC recipients showed potential net economic benefits. This analysis, like the Dutch study, does not account for a number of potential intangible benefits from the program, in particular the willingness of nonparticipants to pay for income redistribution through work rather than welfare and, especially, the future employment and earnings increases of the participants attributable to the program.

A fourth problem of direct job creation concerns the effects on the macroeconomic relationships in the economy if the programs are successful. Consider, for example, direct job creation programs for the private

sector. It was argued above that such programs, if effective, would increase employment at a substantially greater rate than output, and the NJTC results have suggested that this has occurred. A direct result of this is a fall in productivity--output per unit of labor input--as we measure it in the U.S., as inputs grow faster than output. Similarly, if employment of target group workers results in an increase in labor force participation from those in the group who are discouraged workers, employment may increase but measured unemployment may remain relatively unchanged, or even increase.

One of the most widely accepted macroeconomic relationships is known as Okun's Law, which states that a 1 percentage point reduction in the unemployment rate will be associated with a 3.2 percent increase in GNP. This relationship depends on several other macroeconomic responses in the economy as aggregate output changes—for example, the skill composition of employment, average hours worked per employee, and the utilization of capital. If the change in unemployment is induced by a wage subsidy targeted on low skill workers, all of these standard macroeconomic responses will be altered, and Okun's Law will be repealed. Indeed, during recent years it appears that just that sort of effect has been taking place--some recent estimates have placed the current Okun multiplier at about 2.0, down from the 3.2 figure in the "Law."[7]

Surely it is an open question as to whether or not such changes in macroeconomic relationships are desirable. Declining productivity, for example, does have implications for economic growth and the maintenance of international competitiveness. On the other hand, the reduction in productivity may be evidence that low-skill workers are being

removed from unemployment and idleness and transferred into the productive sector. In this case, these adverse side effects on macroeconomic relationships are evidence that direct job creation efforts are, indeed, producing the intended effects.

The final problem concerns the administrative and design problems associated with direct job creation programs. Such programs are exceedingly difficult to design and administer--surely more costly than a general expansion of aggregate demand. The administrative difficulties of public service employment have already been referred to. As one critique (Danziger, Haveman, and Smolensky, 1978) of the Carter PBJI jobs program stated:

> The mass creation of public service jobs for low wage-low skill workers is something with which this country has no previous experience. The effort is analogous to a private firm's promise to introduce a new product, the manufacture of which requires a technology which has not yet been developed. [T]he effort is fraught with uncertainty, and the possibility of an ineffective and unproductive program must not be neglected. [Consider these] potential problem areas. (1) Regarding the prime job sponsors, how would their competence and honesty be judged;...how would the limited number of jobs be allocated among them and would that allocation create inequalities and discrimination against the least skilled and least productive workers? (2) Can jobs be created which participants will not find demeaning and dead end; will they have a training component facilitating transition to regular employment; ...what precautions would be taken to avoid competition with existing private and regular employment, competition which can lead to labor union objections and to displacement with little net job creations; ...[Would the wage paid in public service employment programs be sufficiently below the private sector net wage to encourage transition out of the program?] (3) How would the transition from special public sector jobs to private sector jobs be facilitated; if the available supply of public service jobs should prove greater than the demand would there be incentives for contractors to terminate existing holders of public service jobs or to encourage their transition to regular employment? (4) What problems would ...[high expected job] turnover create for the administration and, especially, the productivity of the public jobs program? [pp.25-26]

The problems associated with employment subsidy programs are equally difficult but of a quite different sort. For example, a marginal wage subsidy such as the NJTC will minimize displacement (and windfalls to employers), but will be relatively ineffective in targeting the additional jobs created. On the other hand, a program which is effectively targeted on low-skill workers may find recruitment costs high, employment goals unattainable, and output objectives difficult to achieve. Such programs may also result in the displacement of a more skilled worker who is a family's primary earner (e.g., a father) with a target group individual (e.g., a youth) whose earnings position in the family is more peripheral. Moreover, programs with the highest potential for stimulating target group employment may increase labor turnover, cause pro-cyclical inventory accumulation policies, or stimulate additional growth in regions which are already the fastest growing.[8]

The realities of direct job creation must serve to temper the optimistic economic rationale for this strategy, and dampen the apparent political enthusiasm for jobs programs designed to reduce unemployment and poverty. Yet, such tempering and dampening are not disastrous. One must, after all, consider the alternatives. And, as has been suggested, the overall marks awarded supply-side education and training programs have not been high. And, while income transfers have doubtless reduced income poverty, the administrative difficulties and the disincentives to work and advancement have discouraged even the most ardent supporters of the income support antipoverty strategy (Danziger, Haveman, and Plotnick, forthcoming). Further, few would now argue that affirmative action, regional development, public works, or even a national service draft are likely to make great inroads into the

unemployment problems of youths, minorities, or low growth regions.

A balanced appraisal, it seems, would award a substantial role to direct job creation efforts. The administrative problems are difficult, but not more so than those of training and transfer programs. And while displacement is a serious concern, even the most cautious appraisals suggest that the $6000-$10,000 budget costs of creating jobs in direct job creation programs is but one-third to one-half the costs of creating jobs via general tax cuts or public expenditure increases. Moreover, the targeting of effects on groups of greatest policy concern would appear to be more feasible under a direct jobs program--either public or private--than under alternative approaches. Perhaps the most telling consideration in support of a prominent role for direct job creation is its macro-economic effect. In a period in which inflation is a serious concern, any strategy which holds out hope of increasing the employment of low productivity workers and, thereby, decreasing their income poverty with little or no upward wage and price effects has to be awarded a relatively high grade. When the enthusiasm of policymakers and the optimism of the economic rationale are tempered by the hard realities of direct job creation, a non-trivial optimism still remains regarding the potential role of this policy strategy.[9]

IV. Some Next Steps in Direct Job Creation Policy

Accepting this cautiously optimistic conclusion regarding the potential role of direct job creation policy, the question is: Can we build on past experience and research to develop improved efforts in this area? What are some potential directions for policy

and what must be known in order to proceed efficiently?

One possibility concerns an employee-based employment subsidy arrangement. Until now, both of the major private sector job creation efforts (the NJTC and the TJTC) have been employer-based. The employer verifies if a particular worker hired qualifies under the terms of the legislation for a subsidy, and if he/she does, a claim for payment is filed. The worker need not know if he/she is generating a subsidy, nor will co-workers know. Moreover, in such an employer-based plan, the individual worker has little ability to influence his/her being hired, even if he/she has knowledge of being in the target population. Response to the incentive lies only with the employer, and, as a result, any activities induced by the subsidy to match job to worker will be only on the demand side of the market. The labor supplier is a passive participant.

This incentive pattern would be altered if the subsidy were employee-based.[10] For example, assume that each worker certified as a member of the target group were given a card indicating that any employer hiring the worker would be entitled to a subsidy of a designated form. Indeed, the subsidy terms could be identical to those in any employer-based targeted program. Possessing the card would provide the worker with a labor market advantage, and hence an incentive to search for a job. Knowing the rules of the program, the employer would have no less incentive to match job to worker than with an employer-based scheme. The advantage of such an employee-based plan, then, stems from the increased incentives on the labor suppliers to search for work, increasing the probability that they will be hired.

In evaluating such an arrangement, several questions immediately arise: 1) Would workers feel stigmatized if specially certified as card or voucher holders? 2) Would co-worker resentment be generated if non-certified workers sensed special conditions or retention probabilities were associated with holding a certification card? 3) Would employers confront added (or reduced) administrative burdens if employee certification were handled in this way? 4) Are there possibilities for varying the terms of the subsidy depending on the circumstances (e.g., income level or age, or region) of the worker? 5) Would target group members already employed be eligible for a certification card, and would their employers be eligible for the subsidy? 6) If the subsidy were paid only for hiring a new certified worker, would not artificially induced job turnover be created? Given the benefits from the increased job-seeking activities which an employee-based plan would induce, the answers to the above questions would have to be rather strongly negative to warrant abandonment of this idea without further consideration.

A second possibility relates to a concern already expressed about public service employment—the apparently unproductive order of offering employment without a clear conception of the output or service to be provided. In the past, direct employment programs have had to look for an output, rather than an output the production of which matches the skills of target group workers being clearly defined and accepted. Indeed, this is one of the criticisms of the public service employment component of PBJI--a criticism which carried weight. The suggestion here is that design of a new direct job creation program be preceded by the clear specification of a public (or merit) good, the production of which would

have gained public support, and be clearly visible and measurable. With such a clear delineation of output, the productive process could then be specified to maximize the employment of low productivity, target group workers.

The strategy being suggested, then, is the reverse of the procedure heretofore adopted in the U.S. One example of this approach would be that of the Netherlands, where a clear national commitment to a neat, clean, well-trimmed landscape has now been established as a public merit good. To obtain this "output" has required municipalities, with national government support, to increase labor demands for sport field and playground improvement, roadway trimming and beautification, vacant field maintenance, and minor road repairs and clean-up. The provision of this output has entailed the employment of numerous low productivity workers, including disabled and handicapped people. By focusing on attainment of this specific and visible output, public support is obtained, which support has the side effect of increasing the demand for low productivity workers.

A third suggestion relates to the potential benefits of a combined training-job creation effort. Existing private sector job creation programs have neglected training relative to straight employment provision. Evidence suggests that private sector employment with on-the-job training over a continued period can have substantial long-run effects. If this is so, an explicit effort to link training and direct job creation may have merit.

Clearly, training provided by private sector employers will only be commensurate with the net benefits which they perceive from such efforts.

Hence, if a training component (or requirement) were to be coupled with employment subsidies, the subsidy provision would have to be appropriately enlarged.

Such an employment-training program is not without precedent. In 1978, Sweden introduced a temporary marginal employment subsidy designed to stimulate a general increase in employment. The program originated in response to an expected decrease in industrial employment during the latter part of 1978 and was designed to expire on July 1, 1979. Any establishment which experienced a net increase in employment on July 1, 1979 beyond its May 1, 1978 level was eligible for the subsidy. Employers are required to satisfy the union involved that the relevant employees receive a minimum of training (about 2-month's worth), with the amount of the subsidy being set to cover the additional costs incurred. There is little doubt that a subsidy arrangement which both paid training costs and subsidized employment could be made attractive to private business. Again, numerous questions of design and implementation can be raised, not the least of which concerns the verification of training quality, effectiveness, and costs. However, the potentials of such an approach would appear to warrant additional study and experimentation.

In conclusion, then, as we enter the 1980s policies designed to directly create jobs would appear to be a permanent part of the economic landscape. As it now looks, the major problems of the 1980s will be continued inflation; structural unemployment of youths, women, and minorities; and economic dislocations due to energy prices and changing retirement patterns. Public service employment and employment subsidies have an important role to play in such an environment. The potential

of these policies for "cheating the Phillips curve," targeting employment on less productive, hard-to-employ groups, and affording transitional employment opportunities during periods of dislocation, directly addresses these problems. Moreover, through the Full Employment and Balanced Growth Act of 1978, a legislative mandate to directly use federal policies to meet these problems is now on the books.

What is now necessary is that more be learned about the benefits and problems of alternative direct job creation measures. Unless these measures can be designed so as to maximize their output and targeting potential while avoiding their displacement and other adverse side effects, evaluation of them may ultimately be no more favorable than that of the education, training, and income support strategies of the 1960s and 1970s. Such a result would represent an apparent missed opportunity. Experimentation with both employee-based subsidy arrangements and subsidized employment-training arrangements contracted for directly with private sector businesses should be high on the policy agenda for the early 1980s. The results from such activities could serve as the basis for expanded job creation policies which meet both efficiency and equity goals.

FOOTNOTES

[1]The concept of structural unemployment used here is that suggested by the Joint Economic Committee: "Structural unemployment consists of that margin of nonfrictional unused labor resources whose employment through conventional macroeconomic policies would result in an accelerating rate of inflation (U.S. Congress, Joint Economic Committee, 1979a, p. 27)."

[2]The emphasis in this definition is on structural unemployment, even though some direct job creation policies are directed at cyclical unemployment problems (e.g., the New Jobs Tax Credit). As will be indicated below, the measures with a countercyclical objective also have a selective or targeted objective as well. For elaboration of a 4-way public-private-countercyclical-counterstructural taxonomy of direct job creation measures, see the testimony of Isabel V. Sawhill before the Joint Economic Committee (U.S. Congress, 1979b).

[3]Recent estimates place the number of such "discouraged workers" in the neighborhood of 750,000. Evidence on the labor force responsiveness of these groups is found in the testimony of Donald A. Nichols before the Joint Economic Committee (U.S. Congress, Joint Economic Committee, 1979a).

[4]The term "cheating the Phillips curve" was first introduced into the policy discussion in this area by Professors Baily and Tobin (1977). A more pessimistic view of this possibility which emphasizes the flexibility of wages and labor mobility is found in the work of Johnson and Blakemore (1979).

[5]A more full-blown discussion of the evidence on the effectiveness of direct job creation measures is found in Haveman and Christainsen (1978).

[6]See the testimony of Isabel V. Sawhill (U.S. Congress, 1979b). The percentage displacement figures used are defended there. The per job costs of private sector job creation would fall to $2500 if the 80 percent displacement assumption were changed to 50 percent. Similarly, the cost per job in public sector job creation would rise to $14,300 if the same 50 percent displacement assumption were substituted for the 20 percent assumption used.

[7]A discussion of the changes in macroeconomic relationships induced by employment subsidies is found in Bishop and Haveman (1979).

[8]The issues involved in designing effective selective employment subsidy programs are discussed in Bishop and Haveman (forthcoming).

[9]This tempered optimism also pervaded the evaluations of a direct job creation strategy, as presented to the Joint Economic Committee. Several of these statements also emphasized the existing imbalance in this strategy favoring public rather than private job creation efforts.

[10]The possibilities of an employee-based subsidy were explored in more detail in Bishop (1977).

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